**First Quarter Report**
**January 31, 2013**

Enghouse Systems

Software engineered for results

March 5, 2013

To our Shareholders,

First quarter revenue was $42.0 million, an increase of 37% over revenue of $30.5 million in the first quarter last year. The increase in revenue was primarily the result of incremental revenue contributions from acquisitions. Revenue reflects hosted and maintenance services contributions of $20.6 million in the quarter, an increase of 29% over last year. Adjusted EBITDA for the quarter was $9.6 million or $0.36 per diluted share compared to $7.9 million or $0.30 per diluted share in last year's first quarter. Results from operating activities for the quarter were $7.3 million compared to $7.6 million in the prior year's first quarter as a result of special charges booked on acquisitions of $1.8 million in the quarter. Excluding special charges related to restructuring of acquisitions, results from operating activities would be $9.1 million, an increase of 20% over the prior year. Net income for the first quarter was $3.4 million or $0.13 per diluted share compared to the prior year's first quarter net income of $4.1 million or $0.16 per share.

Operating expenses increased to $23.0 from $14.9 million in the prior year's first quarter and include incremental operating costs related to acquisitions as well as special charges related to restructuring of acquired operations. Non-cash amortization charges in the quarter were $3.6 million and include amortization charges for acquired software and customer relationships from acquired operations.

Enghouse closed the quarter with $80.1 million in cash, cash equivalents and short-term investments, compared to $83.7 million at October 31, 2012. This reflects cash paid of nearly $10.0 million for the acquisitions of Visionutveckling AB and Albatross Scandinavia AB completed in the quarter. It also reflects a cash dividend paid of $1.7 million. The Company continues to have no long-term debt.

On March 1, 2013 the Company completed the acquisition of Locus Holdings AS ("Locus") of Norway for a cash purchase price of approximately $14.0 million, subject to certain price adjustments. Locus is a leading supplier of fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market and has a dominant position in the Norwegian Public Safety sector. Its products are installed in police cars, ambulances, rescue helicopters and fire brigades. Locus's transportation, logistics and M2M products are also well established in these markets.

The Board of Directors also has approved a 23% increase in its eligible quarterly dividend to $0.08 per common share, payable on May 31, 2013 to shareholders of record at the close of business on May 17, 2013. Enghouse has increased its dividend in each of the past five years.

Enghouse remains committed to diversifying its revenue stream and accelerating its expansion into new markets and continues to seek further acquisitions to grow its market share.

Stephen J. Sadler
Chairman of the Board and Chief Executive Officer

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis ("MD&A") has been prepared as of March 5, 2013 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the periods ended January 31, 2013 and 2012, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2012, contained in the Company's 2012 Annual Report to Shareholders. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems Limited (the "Company" or "Enghouse") and its subsidiaries, all wholly owned, for the first quarter ended January 31, 2013. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The unaudited condensed consolidated interim financial statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors.

**Non-IFRS Measures**

The Company uses non-IFRS measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses results from operating activities and Adjusted EBITDA as a measure of operating performance. Therefore, results from operating activities and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Results from operating activities are calculated as net income before amortization of acquired software and customer relationships, finance income, finance expenses, other income, and the provision for income taxes. Results from Adjusted EBITDA are calculated as net income before depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, the provision of income tax and special charges for acquisition related restructuring and transaction costs. Management uses results from operating activities and Adjusted EBITDA to evaluate operating performance as they exclude amortization of software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, other income and restructuring costs primarily related to acquisitions.

**Forward-looking Statements**

Certain statements made or incorporated by reference in this MD&A are forward-looking and relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. By its nature, such forward-looking information is subject to various risks and uncertainties, including those discussed in this MD&A or in documents incorporated by reference in this MD&A, such as Enghouse's Annual Information Form, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed herein. Readers are cautioned not to place undue reliance on this forward-looking information, and the Company shall have no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2012, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at www.sedar.com.

**Corporate Overview**

Enghouse is a Canadian publicly traded company (TSX:ESL) that develops enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in communications software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. Its customers include insurance companies, banks, utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation, and oil and gas sectors.

The Company's strategy is to continue to build a consistently profitable enterprise software company with a diversified product suite and global market presence. The Company emphasizes the importance of recurring revenue streams to increase shareholder value and the predictability of its operating results. This objective is addressed through a combination of organic growth and acquisitions. While the Company continues to develop and enhance its existing product portfolio, it is also important to augment and expedite this strategy with new and complementary technology, products and services obtained through acquisition. This multi-faceted approach will enable the Company to provide a broader spectrum of products and services to its customer base more quickly than through organic means alone.

**Quarterly Results of Operations**

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended January 31, 2013). Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, movements in foreign currency exchange rates and to the timing of acquisitions, staffing and infrastructure changes. See "Risks and Uncertainties" for more details.

| For the three months ending | Total revenue | Net income | Earnings per share – basic | Earnings per share – diluted | Cash and short-term investments | Total assets |
|---|---|---|---|---|---|---|
| January 31, 2013 | $ 41,957 | $ 3,435 | $ 0.13 | $ 0.13 | $ 80,051 | $ 251,829 |
| October 31, 2012 | 38,952 | 8,345^ | 0.32 | 0.32 | 83,652 | 239,710 |
| July 31, 2012 | 35,427 | 4,288 | 0.17 | 0.16 | 79,700 | 238,574 |
| April 30, 2012 | 31,456 | 4,180 | 0.16 | 0.16 | 100,403 | 222,961 |
| January 31, 2012 | 30,533 | 4,060 | 0.16 | 0.16 | 100,491 | 215,797 |
| October 31, 2011 | 31,836 | 13,345* | 0.53 | 0.52 | 99,591 | 211,118 |
| July 31, 2011 | 31,820 | 4,577 | 0.18 | 0.18 | 87,955 | 194,422 |
| April 30, 2011 | 30,334 | 2,091 | 0.08 | 0.08 | 75,662 | 195,249 |

^Includes credit adjustment to tax provision of $2.5 million on set-up of deferred tax losses related to non-capital losses
*****Includes credit adjustment to tax provision of $7.9 million on transition to IFRS

**Results of Operations:**
(in thousands of Canadian dollars except per share amounts)

| | Q1/2013 | Q1/2012 | Year over year change $ | % |
|---|---|---|---|---|
| Interactive Management Group | $ 36,712 | $ 27,462 | 9,250 | 33.7 |
| Asset Management Group | 5,245 | 3,071 | 2,174 | 70.8 |
| **Total revenue** | **41,957** | **30,533** | **11,424** | **37.4** |
| Direct costs | 11,606 | 8,011 | 3,595 | 44.9 |
| Revenue, net of direct costs | **30,351** | **22,522** | 7,829 | 34.8 |
| Operating expenses | 21,217 | 14,942 | 6,275 | 42.0 |
| Special charges | 1,815 | - | 1,815 | 100.0 |
| Results from operating activities | **7,319** | **7,580** | (261) | 3.4 |
| Amortization of acquired software and customer relationships | (3,584) | (2,438) | (1,146) | (47.0) |
| Finance income | 333 | 243 | 90 | 37.0 |
| Finance expense | (81) | (41) | (40) | (97.6) |
| Other income (loss), net | 361 | (2) | 363 | 181.5 |
| Income before taxes | 4,348 | 5,342 | (994) | (18.6) |
| Provision for income taxes | 913 | 1,282 | (369) | (28.8) |
| **Net Income** | **$ 3,435** | **$ 4,060** | **(625)** | **(15.4)** |
| Earnings per share – basic and diluted | $ 0.13 | $ 0.16 | (0.03) | (18.8) |
| Cash flow from operating activities | **$6,819** | **$2,782** | 4,037 | 145.1 |
| Cash flow from operating activities excluding changes in working capital | **$8,257** | **$8,267** | (10) | - |

**EBITDA:**

The table below reconciles Adjusted EBITDA to net income:

| | Three Months ended January 31, 2013 | Three Months ended January 31, 2012 |
|---|---|---|
| **Total Revenue** | **$ 41,957** | **$ 30,533** |
| Net income for the period | 3,435 | 4,060 |
| Provision for income taxes | 913 | 1,282 |
| Depreciation of property, plant and equipment | 468 | 278 |
| Amortization of acquired software and customer relationships | 3,584 | 2,438 |
| Finance income | (333) | (243) |
| Finance expenses | 81 | 41 |
| Other (income) expense | (361) | 2 |
| Special charges | 1,815 | - |
| **Adjusted EBITDA** | **$ 9,602** | **$ 7,860** |
| **Adjusted EBITDA margin** | **23%** | **26%** |
| **Adjusted EBITDA per diluted share** | **$ 0.36** | **$ 0.30** |

**Revenue**

Total revenue for the quarter was $42.0 million compared to $30.5 million in the prior year's first quarter, a 37% increase over the prior year. Hosted services and maintenance revenue was $20.6 million compared to $16.0 million in the prior year's first quarter, an increase of 29%. This includes maintenance revenue of $18.2 million compared to $15.3 million in the prior year's first quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as contributions from acquired operations. Recurring revenue is important to the Company as it increases the predictability of future cash flows. Revenue also includes total license sales of $15.1 million compared to $10.5 million in the prior year's first quarter; a 43% increase.

The Interactive Management Group contributed $36.7 million in revenue in the quarter, compared to $27.5 million reported in the first quarter of fiscal 2012. The increase is attributable to incremental revenue contributions from acquisitions including Visionutveckling AB ("Vision"), which contributed $3.2 million subsequent to acquisition on November 1, 2012 and Zeacom, which added $6.0 million in the quarter. The Asset Management Group contributed revenue of $5.2 million in the quarter, compared to $3.1 million reported in the first quarter of fiscal 2012, and reflects stronger license revenue in the Group's Pulse Networks operations, hosted services contributions from CustomCall Data Systems, Inc. and incremental contributions from Albatross Scandinavia AB ("Albatross"), which was acquired on November 1, 2012.

As in recent quarters, revenue was not significantly impacted by foreign exchange as the U.S. dollar compared to the Canadian dollar averaged $1.00 in the current year and $1.01 in the prior year's first quarter. The Pound Sterling averaged $1.61 in the current year compared to $1.60 in the prior year's first quarter, while the Swedish Kronor averaged $0.15 in in both fiscal years' first quarters.

**Direct costs**

Direct costs for the quarter were $11.6 million or 27.7% of revenue compared to $8.0 million or 26.2% of revenue in the prior year's first quarter. The increase in costs and decrease in margins is attributable to incremental costs associated with increased third party software and hardware revenues as well as lower margins on services revenue in the quarter due to acquisitions.

**Operating Expenses**

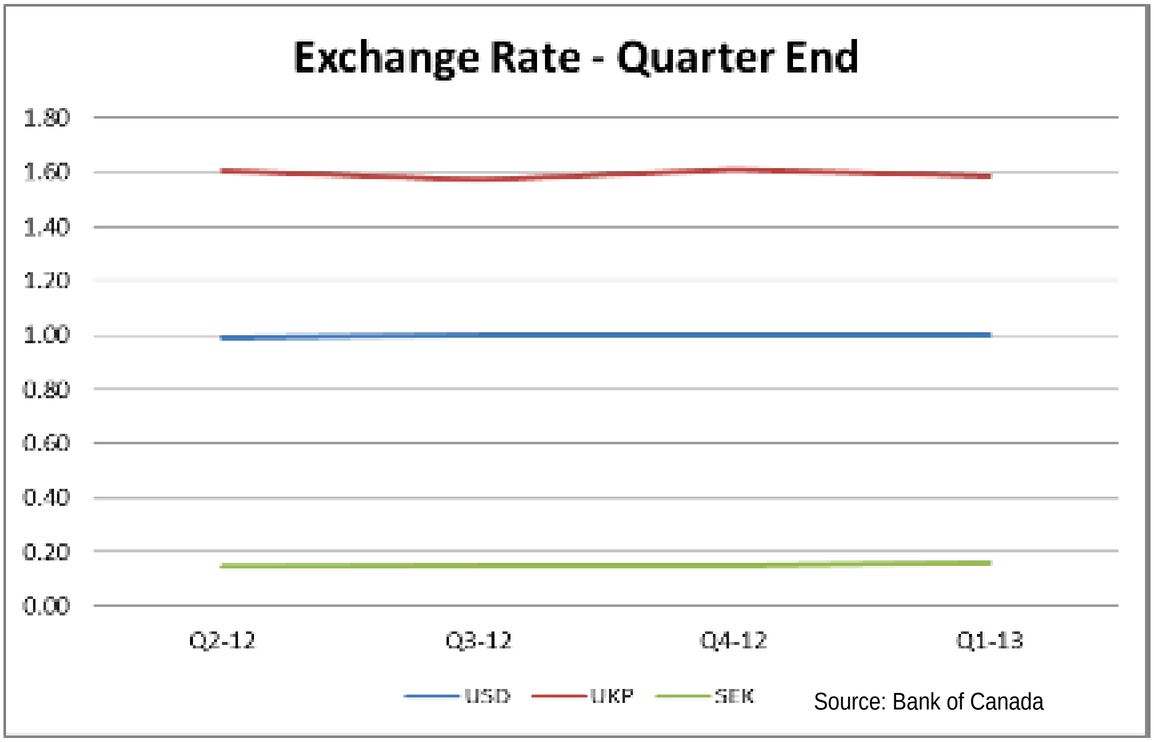
Operating expenses for the quarter were $23.0 million, compared to $14.9 million reported in the first quarter of last year and include special charges related to restructuring initiatives undertaken on acquired operations totalling $1.8 million in the quarter as well as incremental operating costs related to newly acquired operations. Operating costs, excluding special charges, as a percentage of total revenue increased from 48.9% to 50.6% in the quarter as a result of incremental operating costs related to acquired operations.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were $3.6 million, up from the prior year's first quarter expense as a result of incremental charges related to the Zeacom, CustomCall, Vision and Albatross acquisitions, which were partially offset by expiring amortization charges from previous acquisitions.

**Foreign Exchange**

The Company transacts a significant portion of its business activities in foreign currencies including U.S. Dollars, Pounds Sterling and Swedish Kronor. The Company has both revenue and operating expenses denominated in these currencies, which act as a natural hedge. However, the fluctuation in these currencies against the Canadian dollar impacts the amount of recorded revenue and expenses for the Company. The Company records foreign exchange gains and losses in selling, general and administrative expenses in the unaudited condensed consolidated interim statements of operations and comprehensive income.

The Company recorded foreign exchange losses in both first quarters of $0.2 million as the Canadian dollar remained relatively stable against other major currencies in which its revenue and expenses are denominated, consistent with the first quarter of fiscal 2012. The table below outlines the movement in foreign exchange rates relative to the Canadian dollar.




**Finance and Other Income**
During the quarter, the Company recognized finance and other income of $0.7 million compared to $0.2 million in the first quarter of fiscal 2012 as a result of dividends received and gains recognized on the sale of equity positions held.

**Income Tax Expense**
During the quarter, the Company established a tax provision of $0.9 million or a 21% effective tax rate as compared to a provision of $1.3 million or 24% in the prior year's first quarter. The decrease in the effective tax rate relates to reductions in statutory tax rates in a number of jurisdictions and the change in the Company's profit mix by country. The Company paid $2.2 million in tax installments in the quarter, compared to $0.5 million in the first quarter of fiscal 2012.

**Net Income**
Net income was $3.4 million or $0.13 per share on a diluted basis in the quarter compared to $4.1 million and $0.16 per share respectively in the first quarter of fiscal 2012, primarily as a result of special charges for restructuring booked on the Vision acquisition for $1.8 million.

**Liquidity and Capital Resources:**
The Company closed the quarter with cash reserves of $80.1 million, compared to the October 31, 2012 balance of $83.7 million, which is after the acquisitions of Vision and Albatross in the quarter for an aggregate purchase price of $11.9 million, including holdbacks of $1.9 million. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the quarter the Company generated cash flow from operating activities of $6.8 million compared to $2.8 million in the first quarter of 2012 as a result of changes in working capital items. The Company had 25,850,962 Common Shares issued and outstanding as at March 5, 2013. During the first quarter, 70,400 stock options were exercised contributing $0.5 million in cash to the Company. In comparison, 163,300 options were exercised in the prior year's first quarter adding $1.1 million. The Company granted 195,000 options in the first quarter of the fiscal year compared to 140,000 in the first quarter last year. Enghouse did not repurchase any shares of its common stock in either first quarter under its Normal Course Issuer Bid.

**Off-Balance Sheet Arrangements**

The Company has not entered into off-balance sheet financing arrangements. Except for operating leases and other low probability and/or immeasurable contingent liabilities (not accrued in accordance with IFRS), all commitments are reflected on the Company's balance sheet.

**Transactions with Related Parties**

The Company has not entered into any transactions with related parties during the year, other than transactions between wholly owned subsidiaries and the Company in the normal course of business, which are eliminated on consolidation.

**Basis of preparation and significant accounting policies**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2012 annual consolidated financial statements.

The policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of March 5, 2013, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending October 31, 2013 could result in a restatement of these unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2012 annual consolidated financial statements.

**Risks and Uncertainties**

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations are substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2012, contained in the Company's 2012 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

**Controls and Procedures**

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Vice President Finance that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

**Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2012, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

**Internal Controls over Financial Reporting**

The Company's CEO and Vice President Finance are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS.

At October 31, 2012, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and Vice President Finance have concluded that, as at October 31, 2012, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109.

There were no changes to the Company's internal control over financial reporting during the quarter ended January 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Additional Information**

Additional information relating to the Company including our most recently completed Annual Information Form ("AIF") is available on SEDAR at ***www.sedar.com*** and on the Company's website at ***www.enghouse.com***.

## Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three months ended January 31, 2013 have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity’s auditor.

# Condensed Consolidated Interim Statements of Financial Position

*(in thousands of Canadian dollars)*
(Unaudited)

| | January 31, 2013 | October 31, 2012 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 50,535 | $ 59,544 |
| Short-term investments | 29,516 | 24,108 |
| Accounts receivable, net | 38,114 | 31,368 |
| Income tax receivable | 151 | - |
| Prepaid expenses and other assets | 4,610 | 3,853 |
| | **122,926** | **118,873** |
| **Non-current assets:** | | |
| Property, plant and equipment | 3,512 | 3,365 |
| Intangibles (Note 4) | 117,073 | 106,995 |
| Deferred income taxes | 8,318 | 10,477 |
| **Total assets** | **$ 251,829** | **$ 239,710** |
| **Liabilities** | | |
| **Current liabilities:** | | |
| Trade payables | $ 29,419 | $ 26,053 |
| Income taxes payable | - | 2,008 |
| Dividends payable | 1,680 | 1,676 |
| Accrued provisions (Note 5) | 2,876 | 1,621 |
| Deferred revenue | 41,590 | 35,935 |
| | **75,565** | **67,293** |
| **Non-current liabilities:** | | |
| Deferred income tax liabilities | 13,433 | 13,241 |
| Deferred revenue | 1,303 | 1,236 |
| **Total liabilities** | **90,301** | **81,770** |
| **Shareholders' Equity** | | |
| Share capital (Note 6) | 56,460 | 55,751 |
| Contributed surplus | 2,800 | 2,847 |
| Retained earnings | 101,126 | 99,371 |
| Accumulated other comprehensive gain (loss) | 1,142 | (29) |
| **Total shareholders' equity** | **161,528** | **157,940** |
| **Total liabilities and shareholders' equity** | **$ 251,829** | **$ 239,710** |
| Commitments and contingencies (Note 12) | | |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statements of Operations and Comprehensive Income

*(in thousands of Canadian dollars, except per share amounts)*
*(Unaudited)*

| | Quarter ended January 31, 2013 | 2012 |
|---|---|---|
| **Revenue** | | |
| Software licenses | $ 15,064 | $ 10,518 |
| Hosted and maintenance services | 20,563 | 15,979 |
| Professional services | 5,491 | 3,740 |
| Hardware | 839 | 296 |
| | **41,957** | **30,533** |
| **Direct costs** | | |
| Software licenses | 1,429 | 909 |
| Services | 9,584 | 6,896 |
| Hardware | 593 | 206 |
| | **11,606** | **8,011** |
| **Revenue, net of direct costs** | **30,351** | **22,522** |
| **Operating expenses** | | |
| Selling, general and administrative | 13,406 | 9,861 |
| Research and development | 7,343 | 4,803 |
| Depreciation of property, plant and equipment | 468 | 278 |
| Special charges (Note 5) | 1,815 | - |
| | **23,032** | **14,942** |
| **Results from operating activities** | **7,319** | **7,580** |
| Amortization of acquired software and customer relationships | (3,584) | (2,438) |
| Finance income | 333 | 243 |
| Finance expenses | (81) | (41) |
| Other income (expense) | 361 | (2) |
| **Income before income taxes** | **4,348** | **5,342** |
| **Provision for income taxes (Note 8)** | 913 | 1,282 |
| **Net income for the period** | **$ 3,435** | **$ 4,060** |
| Items that may be reclassified subsequently to profit or loss: | | |
| Foreign currency translation differences from foreign operations | 861 | (582) |
| Transfer to net income of realized gains on available for sale investments, net of tax of ($56); Q1/2012 – $- | (369) | - |
| Unrealized gain (loss) on available for sale investments, net of tax of $103; Q1/2012 – ($194) | 679 | (614) |
| Unrealized foreign currency translation gain on available for sale investments, net of tax of $-; Q1/2012 – $3 | - | 8 |
| **Other comprehensive income (loss)** | **1,171** | **(1,188)** |
| **Comprehensive income** | **$ 4,606** | **$ 2,872** |
| **Earnings per share** | | |
| Basic and diluted | $0.13 | $0.16 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statements of Changes in Equity

*(in thousands of Canadian dollars)*
*(Unaudited)*

| | Share Capital -number | Share capital $ | Contributed surplus $ | Accumulated other comprehensive income (loss) $ | Retained earnings $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance – November 1, 2012** | **25,780,562** | **55,751** | **2,847** | **(29)** | **99,371** | **157,940** |
| Net income | - | - | - | - | 3,435 | 3,435 |
| Other Comprehensive Income (net of tax): | | | | | | |
| Cumulative Translation Adjustment | - | - | - | 861 | - | 861 |
| Transfer to net income of realized gains on available-for-sale investments, net of tax | - | - | - | (369) | - | (369) |
| Unrealized gain (loss) on available-for-sale investments, net of tax | - | - | - | 679 | - | 679 |
| **Comprehensive income (loss) for the period** | **-** | **-** | **-** | **1,171** | **3,435** | **4,606** |
| Employee share options: | | | | | | |
| Value of services recognized | - | - | 137 | - | - | 137 |
| Proceeds on issuing shares | 70,400 | 709 | (184) | - | - | 525 |
| Dividends | - | - | - | - | (1,680) | (1,680) |
| **Balance – January 31, 2013** | **25,850,962** | **56,460** | **2,800** | **1,142** | **101,126** | **161,528** |
| **Balance – November 1, 2011** | **25,337,262** | **52,134** | **2,970** | **1,035** | **84,782** | **140,921** |
| Net income | - | - | - | - | 4,060 | 4,060 |
| Other Comprehensive Income (net of tax): | | | | | | |
| Cumulative Translation Adjustment | - | - | - | (582) | - | (582) |
| Unrealized gain (loss) on available-for-sale investments, net of tax | - | - | - | (614) | - | (614) |
| Unrealized foreign currency translation gain (loss) on available-for-sale investments, net of tax | - | - | - | 8 | - | 8 |
| **Comprehensive income (loss) for the period** | **-** | **-** | **-** | **(1,188)** | **4,060** | **2,872** |
| Employee share options: | | | | | | |
| Value of services recognized | - | - | 166 | - | - | 166 |
| Proceeds on issuing shares | 163,300 | 1,435 | (308) | - | - | 1,127 |
| Dividends | - | - | - | - | (1,275) | (1,275) |
| **Balance – January 31, 2012** | **25,500,562** | **53,569** | **2,828** | **(153)** | **87,657** | **143,811** |

*The accompanying notes form an integral part of these condensed consolidated interim financial statements.*

# Condensed Consolidated Interim Statements of Cash Flows

(*in thousands of Canadian dollars)*
*(Unaudited)*

| | Quarter ended January 31, 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 3,435 | $ 4,060 |
| **Adjustments for:** | | |
| Depreciation of property, plant and equipment | 468 | 278 |
| Amortization of acquired software and customer relationships | 3,584 | 2,438 |
| Stock-based compensation expense | 137 | 166 |
| Income tax expense | 913 | 1,282 |
| Finance expenses and other income | (280) | 43 |
| | **8,257** | **8,267** |
| Changes in non-cash operating working capital (Note 13) | 747 | (4,952) |
| Income tax paid | (2,185) | (533) |
| **Net cash flows from operating activities** | **6,819** | **2,782** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment, net | (294) | (491) |
| Acquisitions, net of cash acquired of $196 (Note10) | (9,985) | (243) |
| Net purchase of short-term investments | (4,102) | (976) |
| **Net cash flows used in investing activities** | **(14,381)** | **(1,710)** |
| **Cash flows from financing activities** | | |
| Issuance of share capital | 525 | 1,127 |
| Payment of cash dividend | (1,676) | (1,267) |
| **Net cash flows used in financing activities** | **(1,151)** | **(140)** |
| Effect of currency translation adjustments on cash and cash equivalents | (296) | 415 |
| **Net (decrease) increase in cash and cash equivalents during the period** | **(9,009)** | **1,347** |
| Cash and cash equivalents- beginning of period | 59,544 | 65,624 |
| **Cash and cash equivalents - end of period** | **$ 50,535** | **$ 66,971** |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended January 31, 2013 and 2012**
*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

## 1. Description of the business and reporting entity
Enghouse Systems Limited and its wholly owned subsidiaries (together the "Company" or "Enghouse") develop enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in communications software and services that are designed to enhance customer service, increase efficiency and improve person-to-person communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation and oil and gas sectors. Enghouse is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, Australia, New Zealand, Israel and Croatia.

## 2. Basis of preparation

### (a) Statement of compliance
These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2012, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issue on March 5, 2013.

### (b) Basis of measurement
The condensed consolidated interim financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

### (c) Functional and presentation of currency
The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

### (d) Use of estimates and judgements
The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended October 31, 2012, with the exception of changes in estimates that are required in determining the provision for income taxes.

## 3. Significant accounting policies
The accounting policies adopted are consistent with those of the previous financial year, except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual income.

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended January 31, 2013 and 2012**
*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

### 4. Intangible assets

| | Acquired Software $ | Customer Relationships $ | Goodwill $ | Total $ |
|---|---|---|---|---|
| **At November 1, 2012** | | | | |
| Cost | 73,228 | 34,449 | 64,358 | 172,035 |
| Accumulated depreciation | (48,366) | (16,674) | - | (65,040) |
| **Net book value** | **24,862** | **17,775** | **64,358** | **106,995** |
| | | | | |
| **Period ended January 31, 2013** | | | | |
| Opening net book value | 24,862 | 17,775 | 64,358 | 106,995 |
| Acquisition | 3,875 | 3,850 | 5,514 | 13,239 |
| Disposals | (45) | - | - | (45) |
| Amortization | (2,361) | (1,223) | - | (3,584) |
| Purchase Price Adjustments | - | - | - | - |
| Exchange difference | 60 | 94 | 314 | 468 |
| **Closing net book value** | **26,391** | **20,496** | **70,186** | **117,073** |
| | | | | |
| **At January 31, 2013** | | | | |
| Cost | 77,058 | 38,299 | 70,186 | 185,543 |
| Accumulated amortization | (50,667) | (17,803) | - | (68,470) |
| **Net book value** | **26,391** | **20,496** | **70,186** | **117,073** |

### 5. Accrued provisions
Accrued provisions include provisions for onerous contracts, legal claims, restructuring and special charges, and are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

| | Total |
|---|---|
| **At November 1, 2012** | **$ 1,621** |
| Additional provisions | 1,815 |
| Unused amounts reversed | - |
| Utilized during the period | (662) |
| Effect of movements in foreign exchange | 102 |
| **At January 31, 2013** | **$ 2,876** |

### 6. Share capital and other components of shareholder's equity
**Capital Stock**
The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 25,850,962 common shares outstanding as at January 31, 2013. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2012 or January 31, 2013.

**Common share repurchase plan**
On April 16, 2012, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,731,416 common shares of the Company, expiring on April 15, 2013. The Company did not repurchase any common shares in either fiscal 2013 or 2012.

**Accumulated other comprehensive income (loss)**
Accumulated other comprehensive income (loss) is comprised of the following separate components of equity:

## Notes to Condensed Consolidated Interim Financial Statements

**For the three months ended January 31, 2013 and 2012**

*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

*Cumulative translation account*

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

*Unrealized gains/losses on available-for-sale financial assets*

Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

**Dividends**

During the three months ended January 31, 2013, the Company declared and paid dividends of $0.065 per common share (three months ended January 31, 2012 - $0.05 per common share).

**7. Stock-based Compensation**

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 1,830,700 (January 31, 2012 – 2,181,100) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven to ten years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at January 31, 2013 and January 31, 2012, and changes during the three months ended respectively on those dates is presented as follows:

| | January 31, 2013 | | January 31, 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price in $ | Number of Options | Weighted Average Exercise Price in $ |
| Outstanding at beginning of period | 1,354,400 | 9.43 | 1,487,700 | 7.32 |
| Granted | 195,000 | 17.16 | 140,000 | 11.40 |
| Exercised | (70,400) | 7.45 | (163,300) | 6.91 |
| Forfeited | (89,000) | 11.67 | - | - |
| Outstanding at end of period | **1,390,000** | **10.47** | **1,464,400** | **7.75** |
| Options exercisable at end of period | **555,500** | **7.49** | **692,400** | **6.87** |

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During the first quarter of 2013, the Company recorded a non-cash charge of $137 (Q1/2012 - $166).

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated on a daily basis using historical closing prices, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events over a five year period, which reflects the expected life of the options.

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended January 31, 2013 and 2012**
*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

| | Options Granted January 2013 | Options Granted December 2012 | Options Granted FY 2012 |
|---|---|---|---|
| Risk-free interest rate (%) | 1.32% | 1.25% | 1.18% - 1.47% |
| Estimated volatility (%) | 31% | 31% | 34% - 35% |
| Dividend yield | $0.26 | $0.26 | $0.20-$0.26 |
| Expected life (in years) | 5 | 5 | 5 |
| Weighted average fair value (in dollars) | $4.26 | $4.27 | $2.87 - $4.09 |

**8. Income tax**

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated annual rate used for the year ended October 31, 2013 and the year ended October 31, 2012 was 21% and 24% respectively.

**9. Earnings per share:**

**Basic:** Basic earnings per share are calculated by dividing the net income attributable to owners of the parent by the weighted average number of common shares issued during the period.

| | For the period ended January 31, 2013 | For the period ended January 31, 2012 |
|---|---|---|
| Net income attributable to owners of the parent | $ 3,435 | $ 4,060 |
| Weighted average number of common shares in issue | 25,809 | 25,397 |
| **Basic earnings per share** | **$ 0.13** | **$ 0.16** |

**Diluted:** Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assumed conversions of all dilutive potential common shares. The Company has only stock options as potential dilutive common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the stock options. The number of shares calculated above is compared to the number of shares that would have been issued assuming the exercise of the stock options.

| | For the period ended January 31, 2013 | For the period ended January 31, 2012 |
|---|---|---|
| Net income attributable to owners of the parent | $ 3,435 | $ 4,060 |
| Weighted average number of common shares issued | 25,809 | 25,397 |
| Adjustments for: | | |
| Stock options | 519 | 478 |
| Weighted average number of common shares for diluted earnings per share | 26,328 | 25,875 |
| **Diluted earnings per share** | **$ 0.13** | **$ 0.16** |

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended January 31, 2013 and 2012**
*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

### 10. Acquisitions
On June 1, 2012, the Company acquired 100% of the issued and outstanding shares of Zeacom Group Limited ("Zeacom") for a net cash purchase price of approximately $31.0 million, with U.S. $4.5 million of this being paid into escrow to be released to the vendors, subject to hold back and adjustment. Of this hold back amount, U.S. $0.7 million was released to the Company in September 2012. Zeacom provides multi-channel contact center and business process automation solutions and is headquartered in Auckland, New Zealand, with offices in Australia, the U.K. and the U.S. Results have been reported in the Interactive Management Group since the date of acquisition.

On November 1, 2012 the Company acquired 100% of the issued and outstanding common shares of Visionutveckling AB ("Vision") and 100% of the issued and outstanding common shares of Albatross Scandinavia AB ("Albatross") on December 1, 2012 for an aggregate cash purchase price of approximately $11.9 million. Of this amount, approximately $1.9 million is subject to hold back and adjustment. Vision provides attendant and contact center software solutions with offerings both on-premise and in the cloud, with operations based in Sweden, Norway and Denmark. Results are included in the Interactive Management Group from the date of acquisition. Albatross, based in Sweden, provides a real-time intelligent network platform that delivers voice and SMS routing products to telecom operators, with results included in the Asset Management Division from the date of acquisition.

The acquisitions have been recorded under the purchase method of accounting and results have been included in the unaudited condensed consolidated interim statements of operations from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to condensed consolidated interim financial statements. The purchase price allocations above have not been finalized subject to receipt of additional information related to the settlement of the holdback obligations.

The Company's preliminary purchase price allocations are as follows:

| | Zeacom | Vision | Albatross |
|---|---|---|---|
| Cash and cash equivalents | $ 796 | $ 196 | $ - |
| Short-term investments | - | 508 | - |
| Accounts receivable, net | 6,493 | 2,886 | 485 |
| Income tax receivable | - | 196 | - |
| Prepaid expenses and other assets | 970 | 311 | 148 |
| Property, plant and equipment | 1,175 | 89 | 61 |
| Deferred income tax assets | - | 77 | 148 |
| Acquired software | 14,489 | 3,545 | 330 |
| Customer relationships | 6,002 | 3,060 | 790 |
| Goodwill | 15,457 | 4,738 | 776 |
| Total assets acquired | $ 45,382 | $ 15,606 | $ 2,738 |
| Less: Current liabilities assumed | $ 10,118 | $ 3,429 | $ 1,342 |
| Less: Deferred income tax liabilities | 4,297 | 1,428 | 246 |
| Total liabilities assumed | $ 14,415 | $ 4,857 | $ 1,588 |
| **Net assets acquired for cash consideration** | **$ 30,967** | **$ 10,749** | **$ 1,150** |

### 11. Segmented information
The Company has two operating segments, the Interactive Management Group and the Asset Management Group, based on the nature of the operations and markets that each of these segments serves. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies.

## Notes to Condensed Consolidated Interim Financial Statements

**For the three months ended January 31, 2013 and 2012**

*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

The Company's operating segments each develop and market software products and provide services for their respective markets. The Interactive Management Group, which includes the operations of Vision since its date of acquisition on November 1, 2012, provides communications software and services that are designed to enhance customer service, increase efficiency and improve person to person communications across the enterprise. Its customers include carriers, service providers, insurance companies, banks, government, utilities, high technology, health care and hospitality companies. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation and oil and gas sectors. The results of Albatross have been included in the Asset Management Group since acquisition on December 1, 2012.

The Company evaluates segment performance based on revenue and profit or loss before income taxes.

| | Interactive Management Group | Asset Management Group | Total |
|---|---|---|---|
| **Quarter ended January 31, 2013** | | | |
| Revenue | $ 36,712 | $ 5,245 | $ 41,957 |
| Operating expenses excluding non-cash charges | (29,214) | (4,090) | (33,304) |
| Depreciation of property, plant and equipment | (421) | (47) | (468) |
| Amortization of acquired software and customer relationships | (3,279) | (305) | (3,584) |
| **Segmented profit** | **$ 3,798** | **$ 803** | **$ 4,601** |
| Corporate expenses | | | (866) |
| Finance income | | | 333 |
| Finance expenses | | | (81) |
| Other income (expense) | | | 361 |
| **Income before income taxes** | | | **$ 4,348** |
| Goodwill | $ 58,214 | $ 11,972 | $ 70,186 |
| Other assets | 127,171 | 24,956 | 152,127 |
| Short-term investments | | | 29,516 |
| **Total assets** | | | **$ 251,829** |
| Capital Expenditures | $ 228 | $ 66 | $ 294 |

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended January 31, 2013 and 2012**
*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

| | Interactive Management Group | Asset Management Group | Total |
|---|---|---|---|
| **Quarter ended January 31, 2012** | | | |
| Revenue | $ 27,462 | $ 3,071 | $ 30,533 |
| Operating expenses excluding non-cash charges | (19,624) | (2,205) | (21,829) |
| Depreciation of property, plant and equipment | (234) | (44) | (278) |
| Amortization of acquired software and customer relationships | (2,325) | (113) | (2,438) |
| **Segmented profit** | **$ 5,279** | **$ 709** | **$ 5,988** |
| Corporate expenses | | | (846) |
| Finance income | | | 243 |
| Finance expense | | | (41) |
| Other income (expense) | | | (2) |
| **Income before income taxes** | | | **$ 5,342** |
| Goodwill | $ 39,438 | $ 4,417 | $ 43,855 |
| Other assets | 97,887 | 39,535 | 137,422 |
| Short-term investments | | | 34,520 |
| **Total assets** | | | **$ 215,797** |
| Capital Expenditures | $ 460 | $ 31 | $ 491 |

### 12. Commitments and contingencies

*Mark Atlas v. Apropos Technology, Inc.:* A wholly owned subsidiary of the Company ("Apropos") was named as a defendant in a shareholder class action litigation suit filed in federal court in New York City in November 2001 against Apropos and certain of its former directors and officers and the underwriters of Apropos' initial public offering ("IPO"). This lawsuit alleges that the prospectus and registration statement for the IPO failed to disclose that the underwriters allegedly solicited and received excessive commissions from investors and that some of the investors in the IPO allegedly agreed with the underwriters to buy additional shares in the aftermarket in order to inflate the price of Apropos' stock. The Company understands that approximately 300 other publicly traded companies and their public offering underwriters have had similar suits filed against them.

In June 2003, Apropos and certain issuer defendants entered into a proposed settlement, which would be funded from participating issuers' directors and officers insurance proceeds, less any settlement amounts by the underwriter defendants.

Prior to consummation of the proposed settlement on December 5, 2006, the Third Circuit Court of Appeals issued a ruling concerning class certification, in which it concluded that the proposed class of IPO purchasers could not be certified, as the issues were not common among all class members. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. In light of this Court of Appeals ruling, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including Apropos.

In February 2009, an agreement to settle the litigation in its entirety was reached and definitive settlement documents were filed with the District Court. Final court approval of the settlement was received in October 2009. Several appeals were filed objecting to the definition of the settlement class and fairness of the settlement, however the last such appeal was dismissed January 10, 2012, as a result of which the settlement became final. All settlement proceeds have now been disbursed. The insurance proceeds were sufficient to cover the Company's allocable share of the settlement.

*(Unaudited, in thousands of Canadian dollars, except per share amounts)*

*Southern California Gas Company v. Syntellect, Inc.:* Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, has issued a judgment ("Judgment") in favor of SoCal which, together with certain additional SoCal costs and interest, amounts to U.S. $7.8 million ("Award"). The Judgment has been appealed to the United States Ninth Circuit Court of Appeals, and a standby letter of credit in the full amount of the Award has been posted, pending the outcome of the appeal. SoCal may receive payment of all or part of the Award only if it is ultimately successful in the lawsuit, at which time the expense related to such Award will be recorded in the Company's financial statements.

**General**

The Company provides its customers with a qualified indemnity against the infringement of third party intellectual property rights. From time to time, various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owner's intellectual property rights, and/or suggesting that the Company or its customers should negotiate a license agreement with the owner. The Company's policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to its outside legal counsel for review. The Company generally attempts to resolve any such matter by informing the owner of the Company's position concerning non-infringement or invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue the Company.

In response to correspondence from and, in a few instances, litigation instigated by, third party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. The Company does not believe that it currently has any obligation to provide such a defense or that the Company's products infringe any third party patent. However, as described above, the Company is currently subject to one action on the suggested basis of contractual indemnity. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses.

### 13. Changes in non-cash operating working capital

| | Three months ended January 31, 2013 | Three months ended January 31, 2012 |
|---|---|---|
| Increase in accounts receivable, net | $ (2,877) | $ (3,161) |
| (Increase) decrease in prepaid expenses and other assets | (238) | 61 |
| Decrease in accounts payable & accrued liabilities | (824) | (4,657) |
| Decrease in income taxes payable | (237) | (249) |
| Increase in deferred revenue | 4,263 | 3,127 |
| Unrealized foreign exchange loss (gain) | 660 | (73) |
| | **$ 747** | **$ (4,952)** |

### 14. Subsequent event

On March 1, 2013 Enghouse completed its previously announced acquisition of 100% of the issued and outstanding common shares of Locus Holding AS ("Locus") for a purchase price of approximately $14.0 million, subject to certain price adjustments. Headquartered in Sandefjord, Norway, Locus is a leading supplier of fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market. Locus has a dominant position in the Norwegian Public Safety sector. Its products are installed in police cars, ambulances, rescue helicopters and fire brigades. Locus's transportation, logistics and M2M products are also well established in these markets, which the Company plans to leverage in its North American Transportation operations. The purchase price allocation has not been established subject to receipt of additional information.